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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
OpenAI, Inc.

We have audited the accompanying financial statements of OpenAI, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of OpenAI, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Young, Craig & Co., LLP

September 26, 2019

OpenAI, Inc.
Statements of Financial Position
December 31, 2017 and 2016
(in thousands)

	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash	\$ 6,493	\$ 1,714
Pledge receivables	20,000	-
Other receivables	312	-
Prepaid expenses	-	139
Total Current Assets	<u>26,805</u>	<u>1,853</u>
Restricted cash for credit card use	300	200
Property and equipment, net	<u>1,442</u>	<u>567</u>
TOTAL ASSETS	<u>\$ 28,547</u>	<u>\$ 2,620</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 217	\$ 93
Accrued expenses	1,477	-
Payroll and related expenses	100	-
Total Current Liabilities	<u>1,794</u>	<u>93</u>
LINE OF CREDIT	3,000	-
NET ASSETS		
Without donor restrictions	<u>23,753</u>	<u>2,527</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 28,547</u>	<u>\$ 2,620</u>

OpenAI, Inc.
 Statements of Activities
 For the Years Ended December 31, 2017 and 2016
 (in thousands)

	<u>2017</u>	<u>2016</u>
	<u>Without donor restrictions</u>	<u>Without donor restrictions</u>
SUPPORT AND REVENUE		
Contributions	\$ 52,969	\$ 13,811
In-kind	848	100
Rent	12	22
TOTAL SUPPORT AND REVENUE	<u>53,829</u>	<u>13,933</u>
EXPENSES		
Program services		
Research	29,899	10,634
Supporting Services		
Management and general	<u>2,704</u>	<u>772</u>
TOTAL EXPENSES	<u>32,603</u>	<u>11,406</u>
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	21,226	2,527
NET ASSETS WITHOUT DONOR RESTRICTIONS - BEGINNING	<u>2,527</u>	<u>-</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS - ENDING	<u><u>\$ 23,753</u></u>	<u><u>\$ 2,527</u></u>

OpenAI, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017
(in thousands)

	Program Services	Supporting Services	Total
	Research	Management and General	
Compute and data costs	\$ 11,880	\$ -	\$ 11,880
Employee and related			
Salaries and additional earnings	13,007	1,592	14,599
Payroll taxes	674	82	756
Health and other benefits	738	90	828
Professional services			
Contractor fees	432	82	514
Immigration	-	82	82
Legal	-	148	148
Facilities and related			
Rent	1,920	235	2,155
Other facility costs	218	27	245
Travel and entertainment			
Travel	246	30	276
Other meals and entertainment	85	10	95
Equipment and related			
Computer equipment	12	1	13
Prototypes and other hardware	55	-	55
Other operating expenses			
Software and web services	280	34	314
General and administrative	-	237	237
Other income and expense	-	9	9
Depreciation and amortization	353	43	396
TOTAL EXPENSES	\$ 29,899	\$ 2,704	\$ 32,603

OpenAI, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2016
(in thousands)

	Program Services	Supporting Services	Total
	Research	Management and General	
Compute and data costs	\$ 2,430	\$ -	\$ 2,430
Employee and related			
Salaries and additional earnings	6,333	302	6,635
Payroll taxes	279	13	292
Health and other benefits	269	13	282
Professional services			
Contractor fees	393	-	393
Immigration	-	114	114
Legal	-	48	48
Other professional fees	43	-	43
Facilities and related			
Rent	508	24	532
Other facility costs	16	1	17
Travel and entertainment			
Travel	146	7	153
Other meals and entertainment	98	4	102
Other operating expenses			
Software and web services	31	1	32
General and administrative	-	137	137
Other income and expense	-	104	104
Depreciation and amortization	88	4	92
TOTAL EXPENSES	\$ 10,634	\$ 772	\$ 11,406

OpenAI, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016
(in thousands)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 21,226	\$ 2,527
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Dépreciation	396	92
(Increase) in operating assets:		
Pledge receivables	(20,000)	-
Other receivables	(312)	-
Prepaid expenses	139	(139)
Increase in operating liabilities:		
Accounts payable	125	93
Accrued expenses	1,477	-
Payroll and related expenses	100	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,151</u>	<u>2,573</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(1,272)	(659)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	3,000	-
NET INCREASE IN CASH AND RESTRICTED CASH	4,879	1,914
CASH AND RESTRICTED CASH AT BEGINNING OF YEAR	<u>1,914</u>	<u>-</u>
CASH AND RESTRICTED CASH AT END OF YEAR	<u>\$ 6,793</u>	<u>\$ 1,914</u>

OpenAI, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note A - Organization and Nature of Activities

OpenAI, Inc. (the Organization) is a not-for-profit corporation dedicated to advancing digital intelligence in the way that is most likely to benefit humanity as a whole, unconstrained by a need to generate financial return. The Organization believes that artificial intelligence technology will help shape the 21st century, and wants to help the world build safe AI technology and ensure that AI's benefits are as widely and evenly distributed as possible. The Organization was incorporated under the laws of the state of Delaware on December 8, 2015 as a non-stock, not-for-profit corporation.

Note B – Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis in accordance with accounting standards generally accepted in the United States of America. Consequently, revenues and support are recognized when earned, and expenses and losses are recognized when incurred and accordingly reflect all significant receivables, payables and other liabilities.

Basis of Presentation

The Organization reports information regarding its financial position and activities into two classes of net assets, according to externally imposed restrictions.

Net assets, revenues and support, gains, and losses are classified based on the existence or absence of donor-imposed or grantor-imposed restrictions. Net assets without donor restrictions are available for use in general operations and not subject to donor restrictions. Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as support and net assets without donor restrictions. Gifts received with a donor stipulation that limits their use are reported as support and net assets with donor restrictions. When a donor-stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Gifts having donor stipulations that are satisfied in the period the gift is received are reported as support and net assets without donor restrictions.

OpenAI, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note B – Summary of Significant Accounting Policies, continued

Promises to Give

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and application state law.

The Organization follows the guidance of Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, related to uncertain income taxes. The Organization may recognize the tax benefit from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The Organization has analyzed its tax positions taken for filings with the Internal Revenue Service and the state of California. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations, or cash flows.

The Organization is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is December 31, 2016 and forward. The State of California tax jurisdiction is subject to potential examination for fiscal tax years December 31, 2016 and forward.

Cash and Restricted Cash

For the purpose of the Statements of Cash Flows, the Organization considers cash and restricted cash to consist of cash and money market accounts.

Restricted cash included on the financial position represents amounts used as collateral and required to be set aside for use of bank credit cards. Credit card limit available is based on the cash set aside.

Concentration of Credit Risk

The Organization maintains its cash balances in one financial institution. As of December 31, 2017, the Organization's cash exceeded federally insured limits by approximately \$6,543,000. The Organization has not experienced any losses in such accounts.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the program and supporting service benefitted based on a percentage of headcount.

OpenAI, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note B – Summary of Significant Accounting Policies, continued

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The Organization elected to early adopt the provisions of this new standard during the year ended December 31, 2016. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources and increased disclosures on functional expenses.

As of December 31, 2016, the Organization early adopted the requirements of ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The Organization has adjusted the presentation of its statement of cash flows accordingly. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents. Therefore, the statement of cash flows has been presented to reflect the balances in net assets in beginning-of-year and end-of-year cash and restricted cash balances rather than as increases or decreases that adjust the change in net assets to arrive at operating cash flows. There are no effects of the new requirements on amounts reported in the statement of financial position or statement of activities.

Fair Value Measurements

The estimated fair values of the Organization's short-term financial instruments, including cash, money market, prepaid expenses, and payables arising in the ordinary course of business, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

Financial Instruments

The carrying value of cash, restricted cash, accounts payable, and line-of-credit are stated at carrying cost at December 31, 2017, which approximates fair value due to the relatively short maturity of these instruments. Other financial instruments held at year-end are investments, which are stated at fair value. There were no investments as of December 31, 2017.

Property and Equipment

All acquisitions of property and equipment in excess of \$2,500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over their estimated useful lives of three years for computer equipment and five years for furniture.

Note C - Concentration of Contribution Revenue

For the year ended December 31, 2017 and 2016, approximately \$52.9M and \$13.8M of the Organization's contribution revenue came from four and two contributors, respectively.

OpenAI, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note D - Line of Credit

The Organization has a \$10M revolving line of credit with a Board member, of which \$10M was unused at December 31, 2016. Bank advances on the credit line are payable on demand and carry an interest rate at the greater of 1% per annum or the minimum amount of interest allowed in accordance with the Applicable Federal Rates as determined by the Internal Revenue Service (as set forth in Section 1274(d) of the Internal Revenue Code). During 2016, \$3,750,000 was advanced and subsequently converted into a donation. At December 31, 2017, \$3,000,000 was borrowed on the line of credit and had accrued interest due of \$6,575.

Note E - Property and Equipment

Property and equipment consisted of (in thousands) at December 31:

	2017		
	Cost	Accumulated Depreciation	Book Value
Computers and equipment	\$ 759	\$ 267	\$ 492
Robotics and related equipment	752	169	583
Furniture and fixtures	321	49	272
Leasehold improvements	99	4	95
Total	<u>\$ 1,931</u>	<u>\$ 489</u>	<u>\$ 1,442</u>

	2016		
	Cost	Accumulated Depreciation	Book Value
Computers and equipment	\$ 428	\$ 62	\$ 366
Robotics and related equipment	138	20	118
Furniture and fixtures	93	10	83
Leasehold improvements	-	-	-
Total	<u>\$ 659</u>	<u>\$ 92</u>	<u>\$ 567</u>

Depreciation expense totaled \$396,000 and \$92,000 for the year ended December 31, 2017 and 2016, respectively.

Note F – Facility Rental Income

The Organization leases out a portion of its facility to various entities throughout the year under contractual lease. The facility rental income under contractual lease is \$12,000 and \$22,000 for the year ended December 31, 2017 and 2016, respectively.

The Organization subleases space indirectly from a Board member on a month to month basis and is responsible for utilities and maintenance.

OpenAI, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note F – Facility Rental Income, continued

On January 1, 2017, the Organization licensed a portion of their leased property to another entity ("licensee") and entered into a cost sharing agreement where the licensee will fully compensate for use of shared resources without imposing any expense on the Organization.

As of December 31, 2017 the licensee compensated \$200,000 as shared space fee to the Organization. Rental income under cost sharing agreement is offset by like amounts included in expenses. Rent expense consisted of the following for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Gross rent expense	2,354,984	532,664
Reimbursement of shared expenses	<u>(200,000)</u>	<u>-</u>
Rent expense, net	<u>\$ 2,154,984</u>	<u>\$ 532,664</u>

Note G - In-Kind Donations

The Organization received donated vehicle and sponsorship for program services. Donation in-kind are reflected as contributions at their estimated fair market value at the date of receipt, and are expensed or capitalized as appropriate.

The sponsorship donation received from Amazon Web Services is offset to their service fees and vehicle donation received is offset to employee compensation and reported as wages earned. In-kind support and revenue consisted of the following for the year ended December 31:

	<u>2017</u>	<u>2016</u>
Amazon web services sponsorship	\$ 600,000	\$ 100,000
Vehicle donation	<u>248,295</u>	<u>-</u>
In-kind support and revenue	<u>\$ 848,295</u>	<u>\$ 100,000</u>

Note H – Liquidity and Funds Available

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing its excess operating cash.

The following quantitative disclosure reflects the Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date (in thousands).

OpenAI, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note H – Liquidity and Funds Available, continued

	2017	2016
Financial Assets		
Cash	\$ 6,793	\$ 1,914
Pledge receivables	20,000	-
Other receivables	312	-
Total Financial Assets	27,105	1,914
Less: amounts unavailable for general expenditure within one year:		
Restricted cash for credit card use	(300)	(200)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 26,805</u>	<u>\$ 1,714</u>

Note I – Related Party Transactions

The Organization, through various events during the year, incurred transactions with board members either directly or indirectly. These transactions are reflected within these financial statements. (See Note F and G)

Note J – Retirement Plan

The Organization adopted a qualified 401k retirement plan in July 2017 that covers all eligible employees of the Organization who are at least age 18 and will become a participant on the first day of the pay period after or coincident with the date of the eligibility requirements are met, provided the employee is still employed as of such date. The assets are held for each employee in a Trust fund maintained by an investment firm. Organization may make discretionary matching contributions. Each year, the employer will determine the amount of the discretionary percentage. No discretionary matching contribution was made during the year ended December 31, 2017.

Note K - Subsequent Events

Subsequent events were evaluated through September 26, 2019, which is the date the financial statements were available to be issued.

Formation of OpenAI, LP

On March 1, 2019, the Organization transferred a substantial percentage of core operations to OpenAI, L.P, a new “capped-profit” limited partnership that allows the organization to rapidly increase their investments in compute and talent while including checks and balances to actualize their mission.

OpenAI, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note K - Subsequent Events, continued

OpenAI, L.P.'s primary fiduciary obligation is to advance the aims of the Organization's Charter, and the company is controlled by the Organization in its capacity as the General Partner.

The Organization contributed tangible and intangible assets in exchange for a limited partnership interest in OpenAI, L.P. The Organization will continue in its capacity as both a not-for-profit entity and General Partner of the partnership.

Signing of significant cloud compute service agreements

In February 2018, the Organization entered into a two year services agreement with Google, LLC for cloud computing services. The terms include a minimum spend commitment of \$63M during the service period which the Organization had fully satisfied as of the date of financial statement issuance.